FORESIGHT

Survey of Private Equity and Venture Capital Firms

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Contents

FOREWORD

We are pleased to present the results of our debut survey of private equity and venture capital (PE&VC) firms.

Acuity Knowledge Partners has been in association with the sector for over two decades, during which time we have assisted more than 100 PE&VC firms in a range of analytical and reporting activities. We have worked very closely with these firms and become a trusted partner to support their analysis, assisting them to take better and faster business decisions. With this survey, we aim to collaborate with the sector more seamlessly, so we can provide market participants with research that assists with their existing, and future, challenges.

We embarked upon this survey with the motive of generating collective wisdom for the PE&VC sector and leveraging the somewhat unique market position we have in this space. We share the respondents' optimism towards the prospects for continued PE&VC sector growth. There is a strong basis for this optimism: emerging areas of investing fields, including the evolutionary tech space, the attractiveness of returns luring investors and fuelling fundraising, plenty of investing opportunities, the rising number of PE firms and numerous other drivers.

We hope these survey results offer insights that provide greater transparency and enable further success for this growing sector.

Robert King
Chief Executive Officer
Acuity Knowledge Partners

INDUSTRY PULSE

Sumit Chhabra
Managing Director
Private Equity and Venture Capital
Acuity Knowledge Partners

We are delighted to present the results of Foresight – our debut survey of the PE&VC space. We have been associated with this sector for two decades and have supported PE&VC clients across the spectrum of investing activities and from end to end of the investment life cycle.

Boasting the largest PE practice in this dynamic industry, we continue to strive to understand its direction and challenges in greater detail, and provide value-added insights. This survey is part of our endeavour to gauge the sentiments and outlook of the global PE&VC sector. We wish to thank all the respondents for their participation and sharing their insights.

Optimism is high towards fundraising, investment opportunities and the investing environment. Although challenges exist, the sector seems to be positioned well for growth in 2022.

Expectations for fundraising in 2022 are strong, driving competition not only among existing firms, but also from new firms; the number of PE&VC firms crossed 7,000 recently. This optimism has led to the confident launch of new funds and diversification of strategies. It is not a surprise that high levels of dry powder are expected. However, fundraising expectations vary between regions as well as segments.

One reason for this confidence in fundraising is the ample investing opportunities, particularly in technology and healthcare, across regions. Only a few respondents believe investment opportunities may decline as high valuations, pandemic-induced uncertainty and the lack of good target companies pose challenges to deploying dry powder.

In terms of valuation, although it has been cited as a challenge, the sector overall does not seem to be overly impacted. Valuation levels are expected to rise, and finding a suitable target with the right valuation may become a challenge. Yet, high levels of valuation seem to have a limited impact on exits, likely because the exit environment has been strong, with buoyant M&A activity and IPOs.

Lastly, the PE&VC sector has integrated ESG considerations into its operations and is following one standard or another. A large number of firms adopt ESG measures for their portfolio companies, with periodic reporting to limited partners. These considerations are, therefore, likely to gain further traction going forward.

SUMMARY OF OBSERVATIONS

The PE&VC sector is strongly optimistic about fundraising in 2022, despite the increasing competition. More than two-thirds of the survey respondents are willing to raise new funds. Fundraising optimism is strongest among UK and European firms, while in another key market –North America – it is close to global averages.

As the sector heats up, competition has emerged as the key challenge to fundraising, followed by macroeconomic factors and limited partners' (LPs') preference for large funds. It is not a surprise that amid buoyant activity, convincing LPs to invest is of least concern. On the other hand, LPs' access to deals, particularly direct investment deals, is increasing.

With over two-thirds of the respondents believing there are ample investment opportunities, it comes as no surprise that both investors and target companies are looking at PE&VC firms. Optimism surrounding investment opportunities seems to be the highest in South America, Asia and the UK.

However, a small number (10%) of respondents believe there is moderate to slightly high difficulty in terms of opportunities, mainly due to rising valuations and the lack of suitable opportunities. These challenges seem universal, applying to all regions and firms.

PE&VC firms have a high interest in tech opportunities, primarily in fintech, healthtech, artificial intelligence/machine learning and the internet of things.

Professionals spend over two-thirds of their time on three activities – due diligence, deal sourcing and portfolio monitoring. However, this is not universal, e.g., Middle East-based firms invest less time in valuation, deal sourcing and deal evaluation than their Western counterparts.

PE&VC firms are also looking to augment their teams' capacity through outsourcing: 79% of the firms surveyed are willing to outsource their operations (including but not limited to accounting, administration, human resources, operations and technology infrastructure). Notably, unlike those sectors where outsourcing is driven by top management, the PE&VC sector is open to outsourcing at all levels, as they find it complementary and valuable.

However, for portfolio monitoring (one of the most time-consuming tasks), firms rely primarily on spreadsheets and other in-house tools.

Ninety percent of the respondents expect valuations to remain the same or increase. Sector-specific trends expected in 2022 include real estate, where valuations are expected to increase as it recovers from the pandemic-driven decline in occupancy and transactions. On the other hand, 40% of ESG fund respondents expect a decline in valuations.

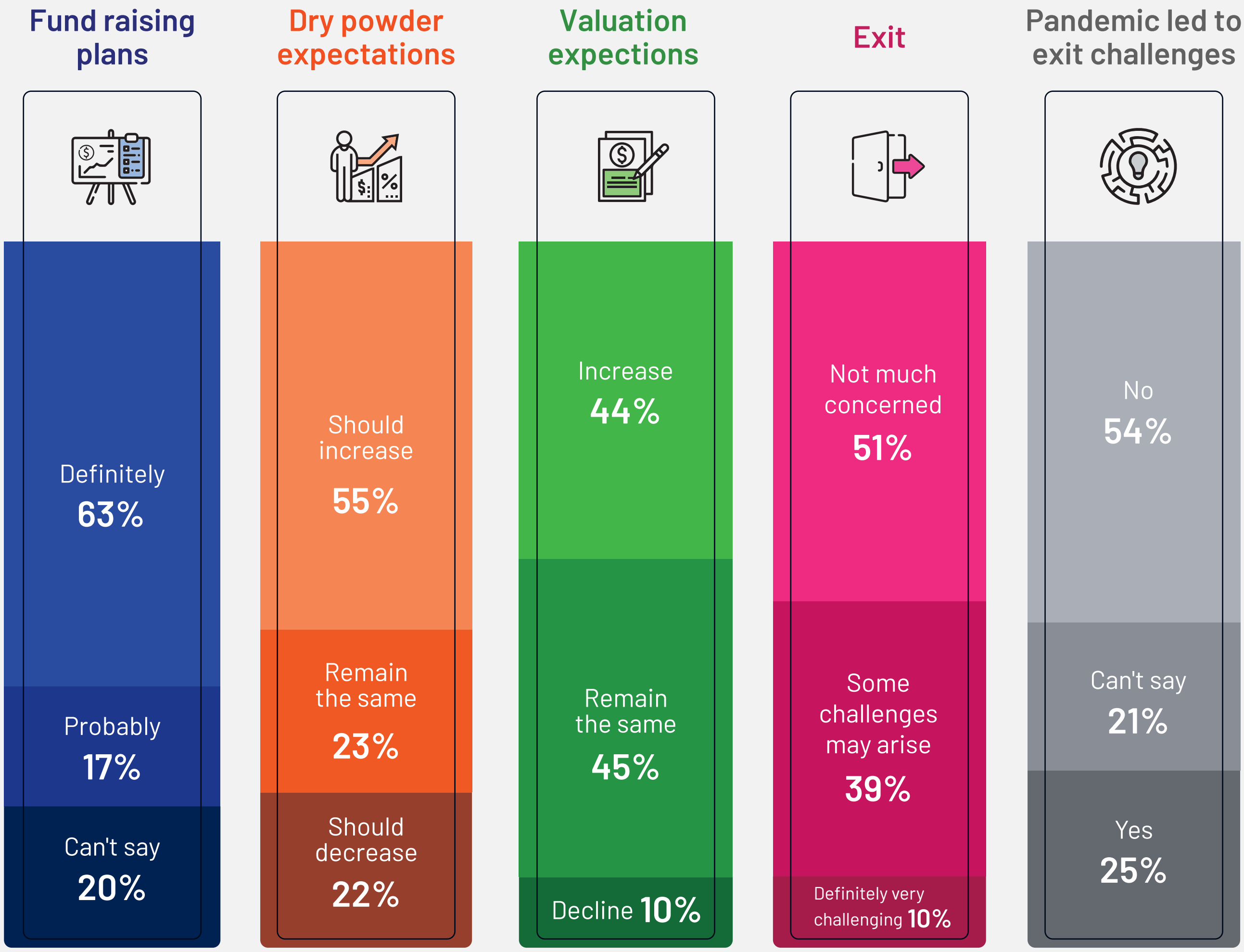
Despite high valuations, the respondents are of the opinion that their exit plans should hold, with strategic sales, sales to other funds and IPOs the three key options. This view seems to find support against the backdrop of substantially high M&A and SPAC activity. No wonder 72% of the respondents did not feel the pandemic impacted their exit decisions.

In terms of challenges in the investing environment, high valuations and fundraising emerged as the most pressing concerns worldwide, with some region-specific outliers. For example, respondents from Africa cited stabilising portfolio companies as their key challenge. Other challenges include high levels of dry powder (24%), LP management (18%) and a limited number of exit avenues (16%). The regulatory environment is expected to remain demanding. PE&VC professionals are especially concerned about vigilance and compliance, ESG, jurisdiction, taxation and reporting obligations.

Besides regulation, external pressure on PE&VC operations relating to ESG considerations is driven by concern over climate change, corporate governance and social disparity. Nearly 55% of the respondents are either signatories to or follow the UN PRI or UN GC frameworks. Firms adhere to other reporting standards as well.

PE&VC firms have also implemented initiatives to strengthen their ESG activities, e.g., having a designated person to deal with ESG-related matters (two-thirds of the respondents), appointing ESG committees (57%) and publishing ESG, CSR or sustainability reports (over half of the firms surveyed).

PE&VC sector is very optimistic



Number may not add to 100% due to rounding

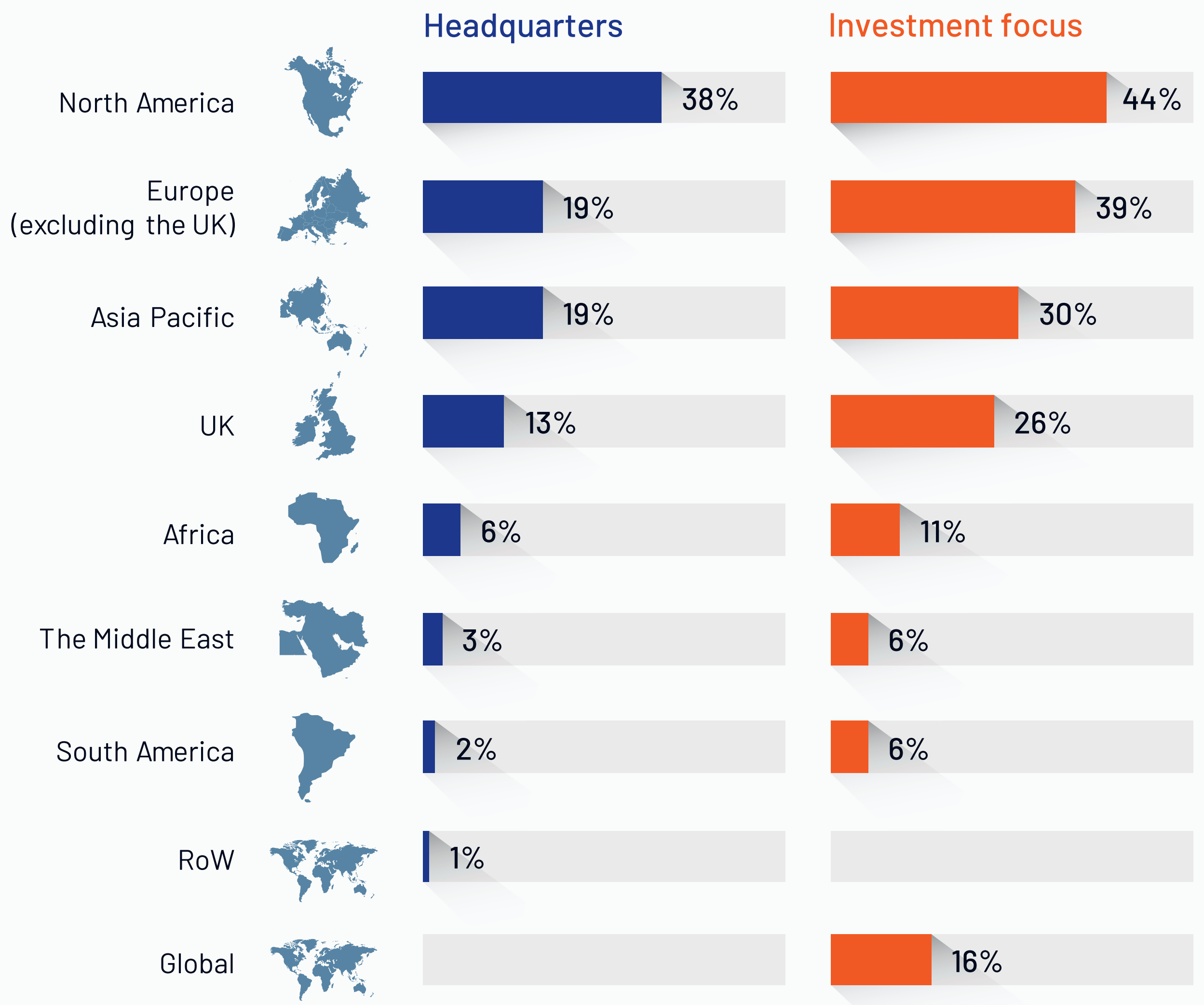
INTRODUCTION

Acuity Knowledge Partners (Acuity) has closely supported global PE&VC clients for almost two decades over a range of industries, investment themes, internal processes, investor reporting and other activities, and has, as a result, developed a unique understanding of PE&VC organisations and their operating environment and relationships with investors.

With our PE&VC practice having grown to become an industry leader, we believe getting the pulse of the industry and understanding its vision for the near future are critical. To this end, we launched a survey of the PE&VC sector with a focus on key themes – opportunities in and concerns for the sector.

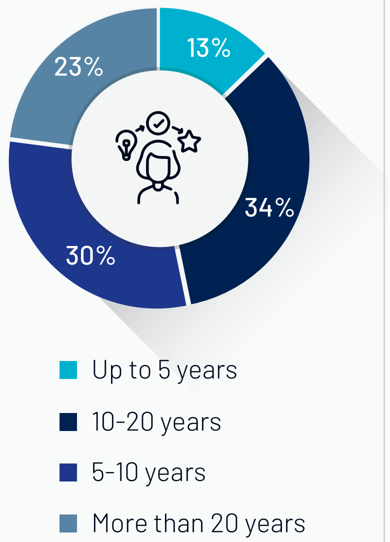
This, our first-ever survey of the sector, met with an overwhelming response. As the charts detail, we received responses from 84 firms from all regions. Our respondents have investing interest worldwide. Of course, due to the heavy concentration of capital, PE&VC firms and investment opportunities, North America, the UK and Europe, and Asia accounted for c.90% of the respondents in terms of the location of their headquarters and substantially high investment focus. Our respondents also show interest in Africa and South America, which have less focus. Hence, our survey captures the essence of the global investing environment.

Respondents' HQ locations and investing focus

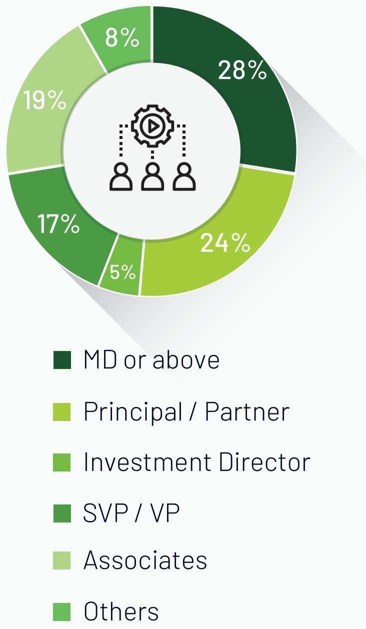


Most of the respondents are industry veterans; 87% of them have over five years of experience in the industry and over half of them 10 years of experience. Three-quarters of them hold leadership positions.

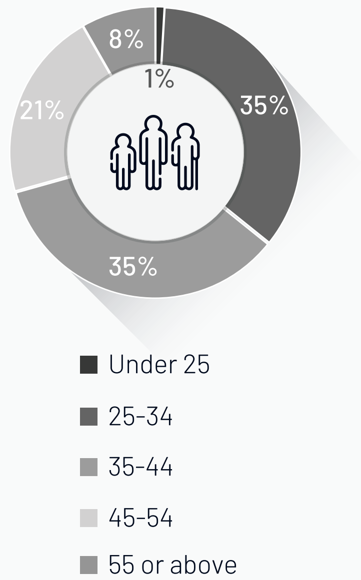
Experience



Current Role

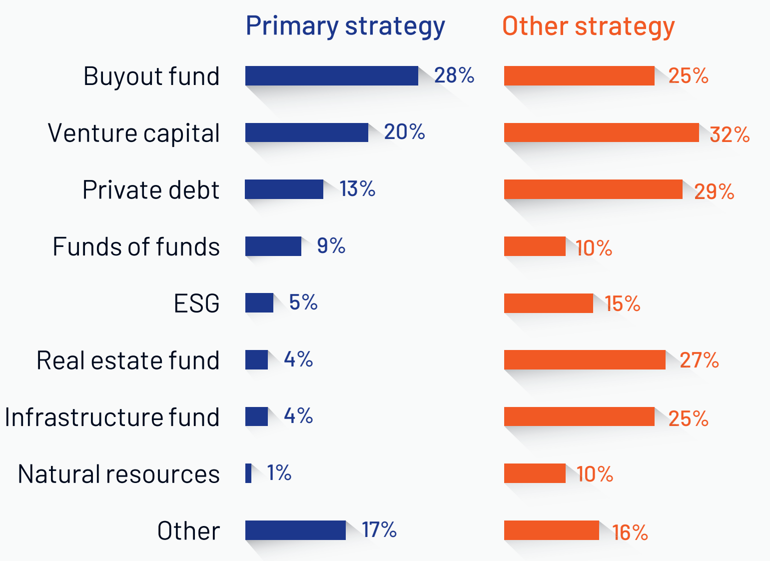


Age

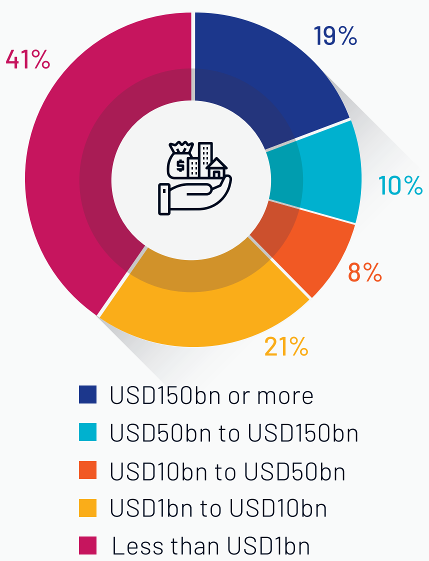


The respondents represent firms that collectively represent the industry. Most PE firms are buyout funds; therefore, the respondents mostly represent buyout funds, followed by VC firms, which are a subset on their own. We also received responses from firms pursuing other strategies. Nineteen percent of our respondents were from funds with over USD150bn in AuM and 41% from smaller firms, with under USD1bn in AuM.

Strategy



AUM (in USDbn)



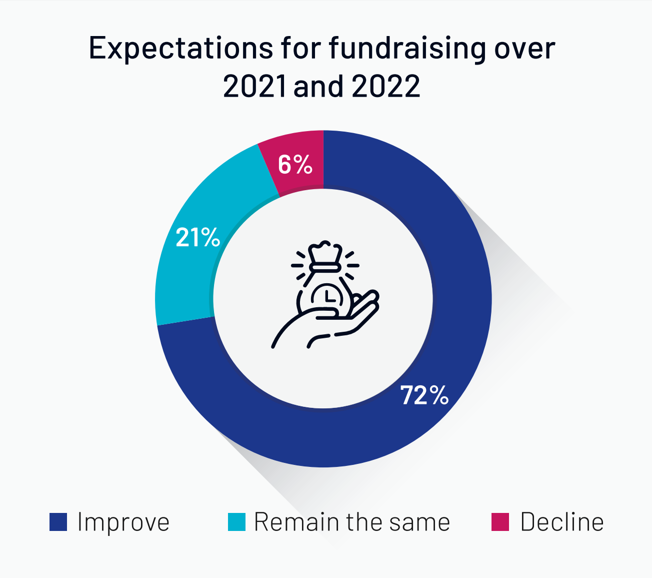
FUNDRAISING

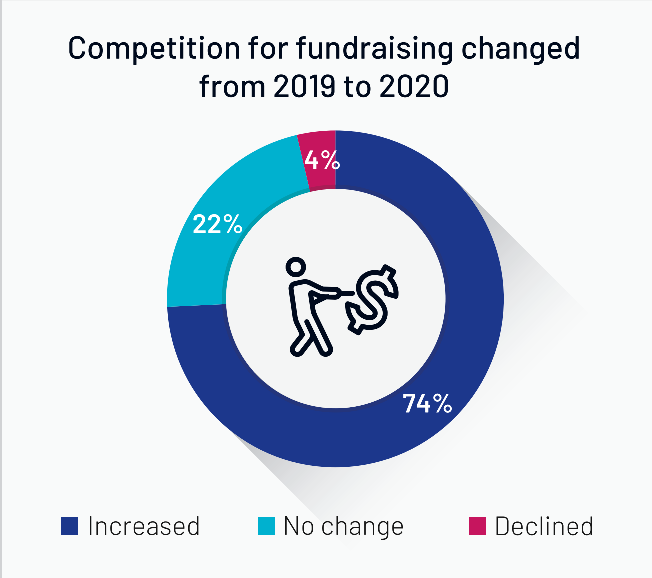
Fundraising is expected to remain strong in 2022, continuing the trend of rising fundraising in recent years, driven by expectations of low interest rates and the business support ecosystem

Optimism surrounding fundraising is high globally; it is highest among European professionals. Only a few professionals in Africa expect a decline

Nearly half of the respondents are open to launching new funds, indicating intensifying competition for fundraising

The PE&VC sector remains strongly optimistic about fundraising in 2022. Despite a large number (74%) of respondents experiencing increasing competition for raising funds recently, almost the same number (72%) still believe fundraising should improve in 2022; 21% expect it to remain the same. This suggests a high degree of optimism in the sector about fundraising despite the number of PE&VC firms increasing (the number of active PE firms has crossed 7,000) [1]. This seems to be supported by the current low interest rate (as asset managers expect low interest rates to continue[2]) and fast-paced business formation environment.





This optimism is at the highest among associates (81%) and professionals with less than five years of experience (79%) in the industry. Among PE&VC leaders (managing directors/partners), this is slightly less: only 70% expect fundraising to improve. Still, overall, virtually all respondents (94%) expect fundraising to remain strong (to improve or remain the same) in 2022.

Regionally, UK- and Europe-based firms are more optimistic: 81-86% of respondents from these regions expect an increase in fundraising, while only c.70% of respondents from the US and Asia expect growth. Similarly, firms with investment focus on these four key regions are more optimistic: 80% or more respondents expect more funds in 2022, including those from the US and Asia. Sentiment among firms based in or having investment focus on other regions (South America, Africa and the Middle East) seems to be weaker, with only half of those respondents expecting growth.

Excluding infrastructure and real estate funds, respondents from other firms are very positive, with virtually all respondents expecting an increase or fundraising to remain the same. Buyouts (80%) and funds of funds (90%) are the most positive about an increase in fundraising. Although funds of funds' fundraising activity has remained subdued since 2017, the strategy will likely make a turnaround following 15 years of low dry powder (from USD172bn in 2007 to USD119bn in 2020). According to data from PitchBook, funds of funds are among the few strategies whose dry powder has consistently decreased over the years.[3]

[1] *https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/mckinseys-private-markets-annual-review*
[2] *https://www.cnbc.com/2021/11/15/gam-entirely-possible-that-well-see-low-interest-rates-forever.html*
[3] *Private Fund Strategy Report (2Q 2021)*

Even amid this optimism, competition for funds is increasing and is expected to remain high. Over 80% of the managing directors and vice presidents and three-fourths of the veterans (with 10+ years of experience) surveyed stated that they expect competition to increase. The larger markets face more competition due to an increasing number of firms and funds out there than in smaller markets (half of Africa-based firms and one-third of Middle East-based firms expect competition for fundraising to decline).

Large funds (with over USD150bn in AuM) felt less competition than other funds (5% of the respondents even felt competition may decline), possibly due to their stronger brand strength and relationship with LPs.

New fundraising

With this degree of optimism, we believe it is natural that more than two-thirds of the respondents are looking to raise new funds while another 17% think they may.

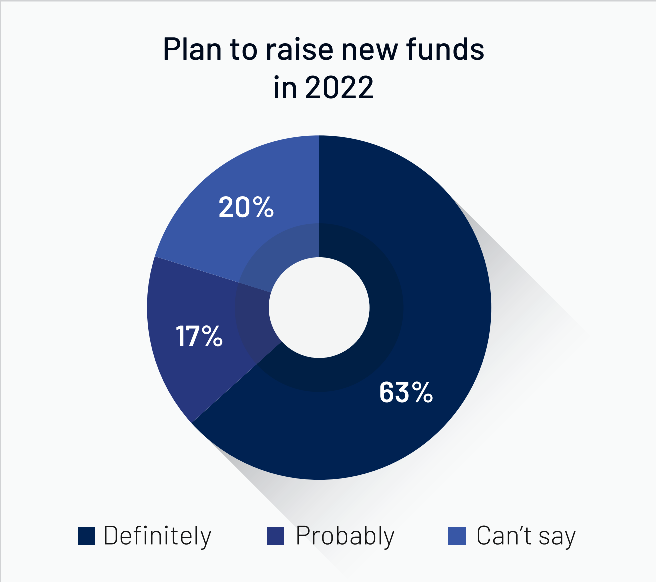
Those who have been with the industry for 5-20 years are slightly more positive (66-68%) compared to those with less than five years in the industry (50%) and those with more than 20 years (60%).

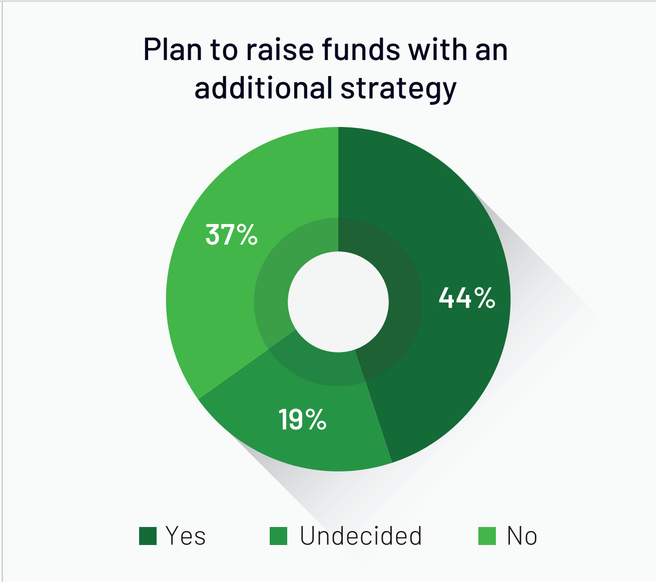
Within organisations, mid-level executives are more optimistic (c.90% of vice presidents and 80% of investment directors) than PE&VC leadership (67% of managing directors) and associates (48%).

Regionally, optimism towards new funds remains in the range of 55-67% in the developed regions of North America, the UK and Europe, and Asia. Notably, it is gaining ground in less explored regions, as evidenced by respondents' willingness to raise new funds in South America (100%), the Middle East (100%) and Africa (83%). Africa-focused firms have been raising funds recently, banking on an emerging middle class[4] and interest in "essential and emergency businesses" such as healthcare.[5]

In terms of strategy, infrastructure funds are the most positive about raising new funds (100%), followed by funds of funds (70%) and buyouts (63%). Again, mid-size funds seem to be more inclined towards raising new funds: 78-82% of respondents with AuM of USD10-150bn say they would raise new funds.

[4] *https://www.ft.com/content/3ce6b82a-bcbe-4876-b68e-a7c72ee40d7f*
[5] *https://www.whitecase.com/publications/insight/africa-focus-spring-2021/private-equity-africa-trends-and-opportunities-2021*





Openness to additional strategies

Diversifying strategies seems to be on the radar, but significant variations exist. While the industry remains keen both to raise funds and launch new funds, more than half of the respondents seem to be sticking to their strategies – 37% of them are sure about maintaining their current focus while 19% are unsure, suggesting strategy diversification is a low priority for more than half of them.

Unlike the approach towards fundraising or new funds, respondents from the different types of firms have divergent opinions. On one hand, large funds seem more open to strategy diversification: 71% of funds with USD150bn+ in AuM and 64% of funds with USD50-150bn in AuM seem open to diversification. On the other hand, small to mid-size funds (USD1-50bn in AuM) seem more conservative, as only one-third of these funds expressed a willingness to diversify; more than one-third do not want to diversify.

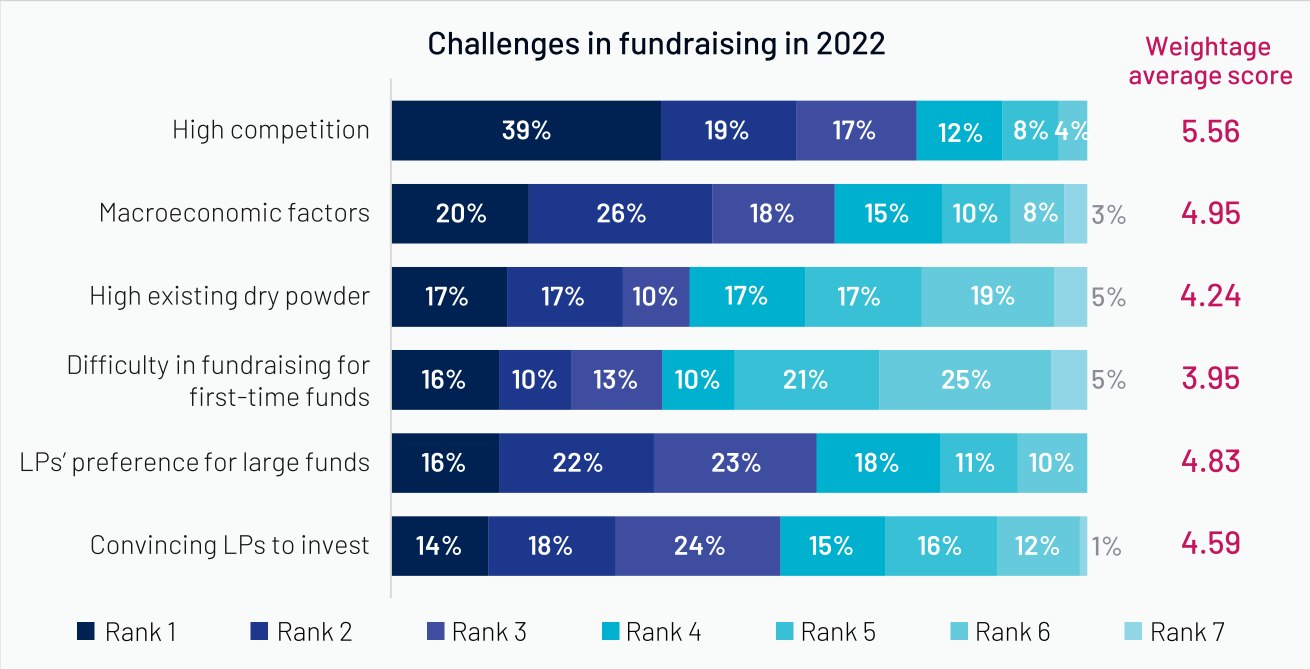
Firms with niche strategies (100% of firms with infrastructure strategies, 64% with private debt strategies and 50% with natural resources strategies) are more willing to diversify. Already diversified sections of the sector, e.g., buyout firms and venture funds, with large strategies are conservative in nature.

Where firms with a market focus are concerned, most markets saw firms respond slightly more negatively than positively on diversification, with two notable outliers – Africa-focused (and Africa-based) firms are more open to diversification than firms based in or focused on other regions; Middle East-focused firms are rigidly conservative, with 83% responding with a definite no on diversification.

In terms of professionals, as the PE&VC sector remains buoyant, the younger professionals (52% of associates and 64% of those with up to five years of experience) seem to be more enthusiastic where diversification is concerned. On the other hand, leadership seems more focused on existing strategies: 50% of managing directors expressed a definite no on strategy diversification.

Challenges in fundraising

Most of the respondents placed high competition as their main challenge, closely followed by macroeconomic factors and LPs' preference for large funds. LPs' preference for large funds as the third-biggest challenge explains why funds with large AuM face less competition.



Note: Score is a weightage average score of the share of respondents assigning importance to a particular response divided by the number of respondents responding to that concern

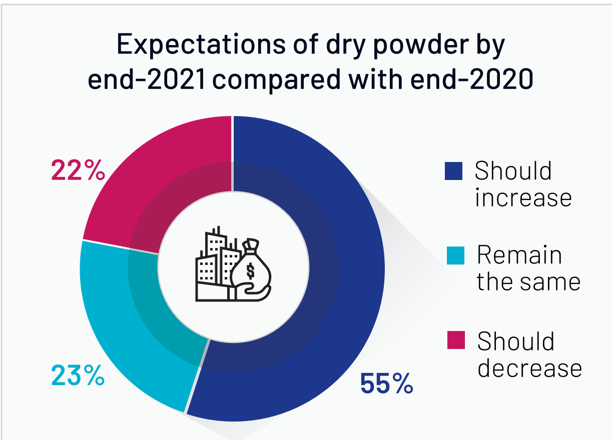
Furthermore, as the market seems buoyant and the fundraising environment supportive, difficultly in raising funds for the first time scores low, and convincing LPs to invest is of least concern. However, LP-related concerns remain, as LPs' access to deals, particularly direct investment deals, are increasing. Additionally, even though ESG and diversity, equity and inclusion (DEI) have emerged as concerns for fundraising, LPs are also closely watching the social impact of deals above and beyond ESG aspects.

The current environment, including the political and regulatory climate, is also impacting fundraising as are pandemic-related travel restrictions. At times, firms face challenges due to their internal structures, e.g., niche mandates, investment strategies and resources available for marketing efforts. Lastly, firms' performance and valuation could also hinder fundraising.

Levels of dry powder

Amid the positive fundraising environment, dry powder is invariably likely to increase; more than half the respondents expect levels of dry powder to remain high, while one-fourth are unsure of its levels.

The level of dry powder (as high as USD3.4tn in 2021, as estimated by Morrison & Foerster[6]) is likely to remain strong for the foreseeable future – a concern for the sector.

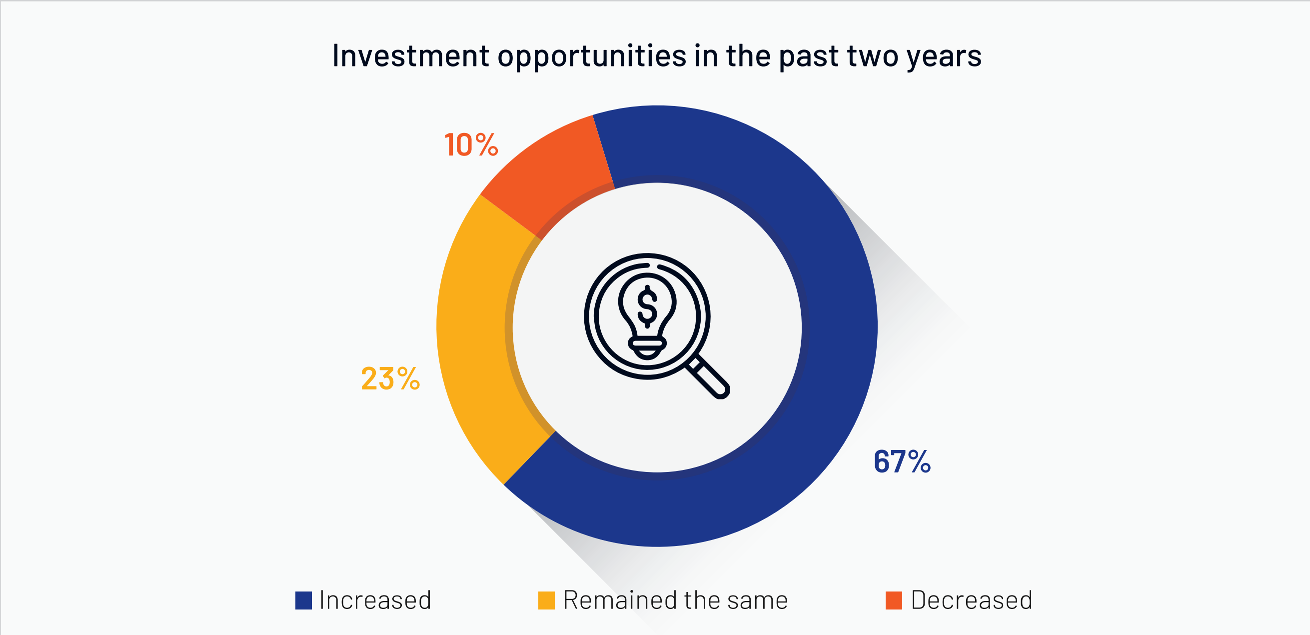


[4] *https://media2.mofo.com/documents/220105-pe-global-trends.pdf*

INVESTMENT OPPORTUNITIES

Globally, 67% professionals believe investment opportunities are increasing; this opinion is highly prevalent among PE&VC leadership, especially in South America, Asia and the UK

The tech and healthcare sectors are the target sectors globally, with professionals across regions expressing interest in them; a few sectors have regional preference, such as manufacturing in the Middle East



Optimism in the PE&VC sector towards investment opportunities is very high overall, with 67% of the respondents believing opportunities are rising, while 23% feel they remain the same, indicating the level of opportunity has at least been maintained. As a result, both investors and target companies are attracted to the sector. However, 10% of the respondents feel opportunities have declined.

Responses differ across demographics. PE&VC leaders believe investment opportunities have increased, while associates believe they have decreased, probably due to the pressure of finding opportunities in this overheated market.

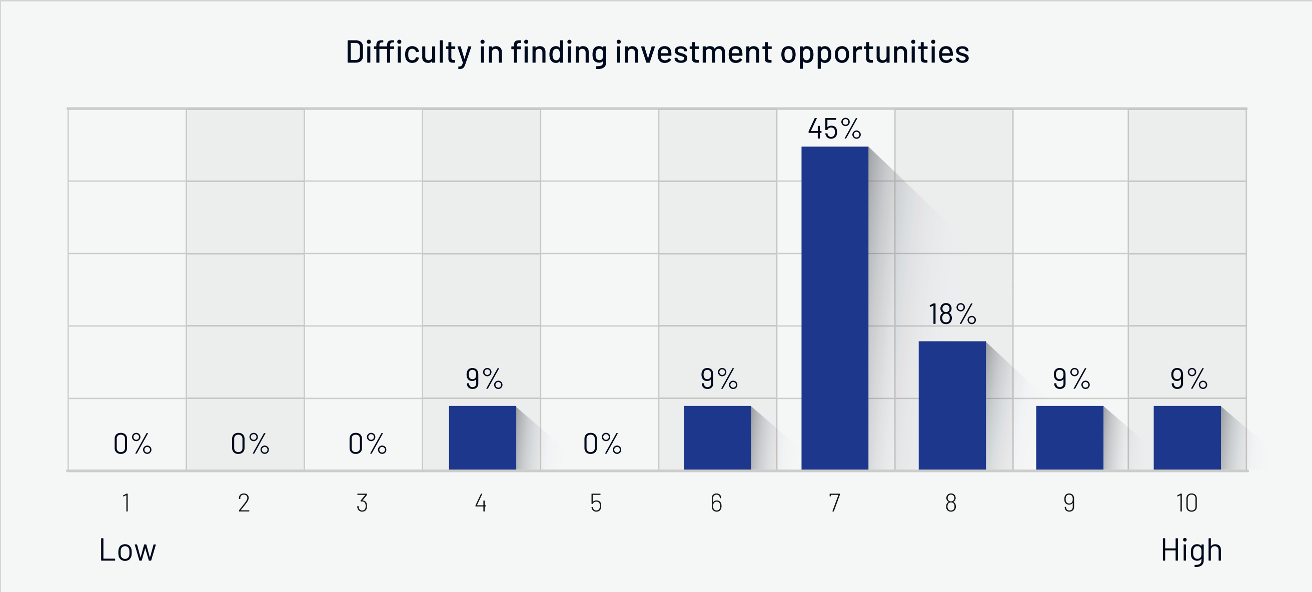
Regionally, the highest optimism is among firms in South America (100%), Asia (81%) and the UK (79%). Most of the respondents (c.65%) from the Middle East and Europe believe opportunities are increasing; still, one-third of the respondents from the Middle East and 19% of the respondents from Europe say opportunities are decreasing. Much of the optimism is from VC funds (77%), followed by real estate funds (75%) and funds of funds (70%). In real estate, 25% of the respondents believe opportunities have decreased. The real estate sector is adversely impacted by the pandemic.

Compared to larger funds, smaller funds believe more opportunities are on the horizon (89% of funds with USD10-50bn in AuM and 82% with less than USD1bn in AuM are of this opinion).

Analysing the decline in opportunities

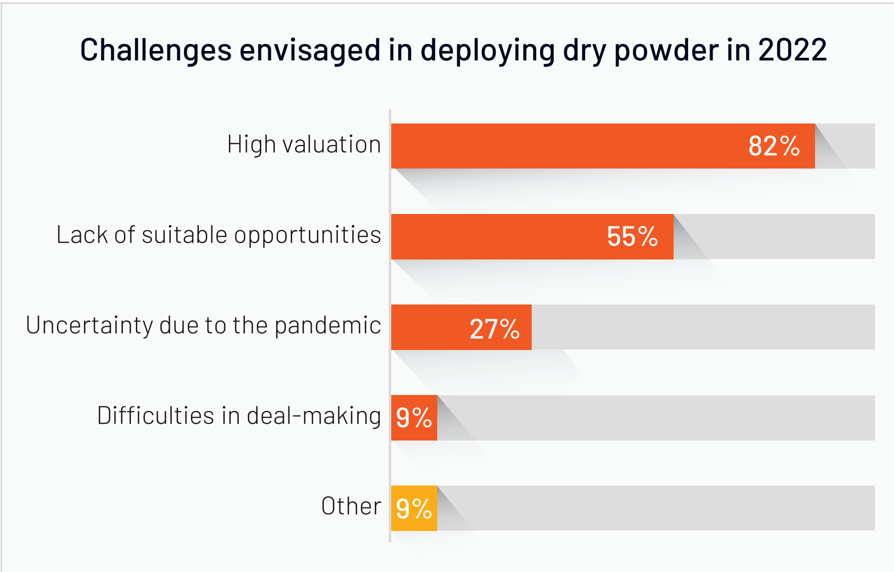
In contrast to the abundance of opportunities most respondents see, a handful of respondents (10%) expressed difficulty in sourcing opportunities and identifying suitable targets.

Most respondents believe the difficulty is moderate to slightly high. However, some managing directors from smaller funds in Europe seem to be experiencing a higher degree of difficulty in finding opportunities.



Number of respondents: 11

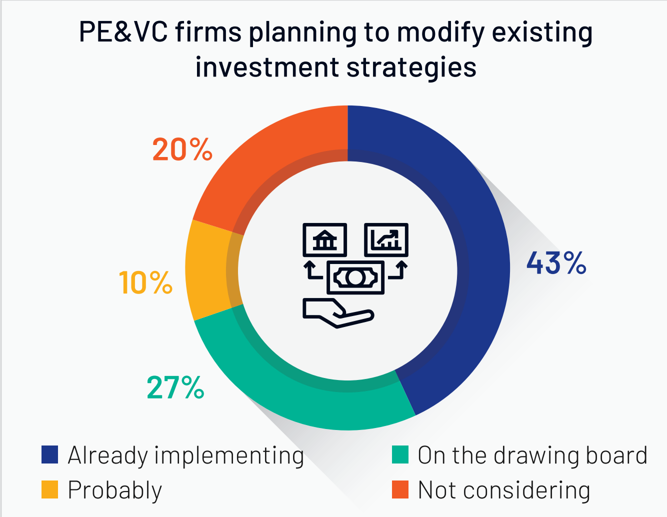
With valuations rising consistently over the years, they have emerged as a top concern, with 82% of respondents citing this as the foremost challenge, followed by a lack of suitable opportunities (55%). **These challenges seem to be universal, as they are cited across regions, types of firms and designations.** Some respondents from Asia and the Middle East felt the decline was also due to pandemic-induced uncertainty.



Note: Share of respondents will not total 100%, as respondents cited multiple challenges

New strategies

In all major and well-penetrated markets (i.e., North America, the UK and Europe, and Asia), there is a strong appetite for modifying strategy; 75-85% of the respondents stated that they have already implemented or are in the process of implementing additional strategies. On the other hand, less mature markets of Africa, the Middle East and South America are sticking to their existing strategies.

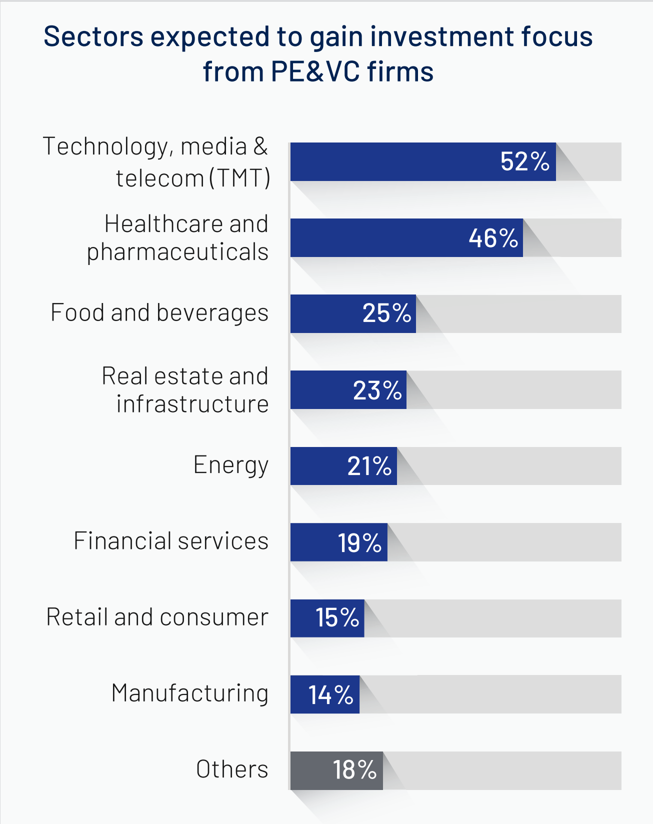


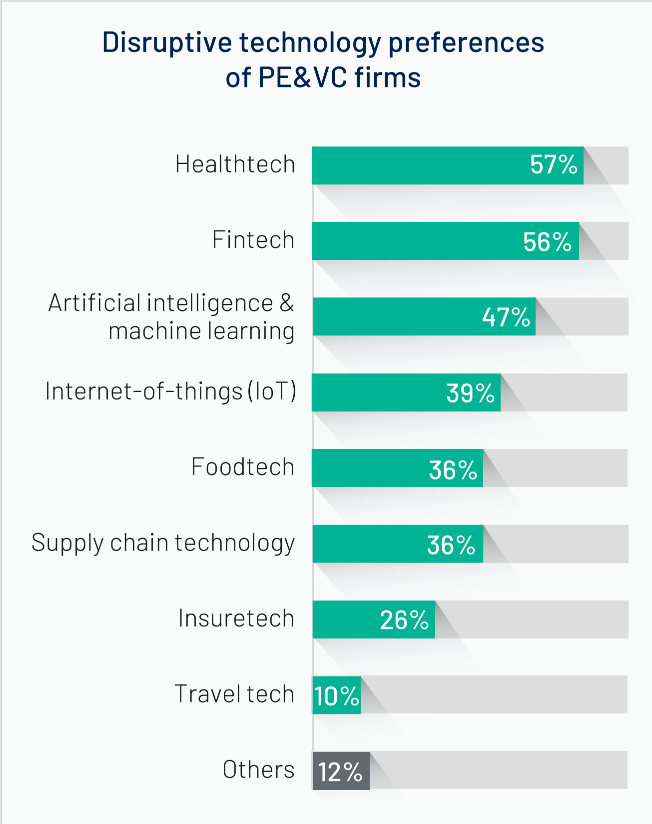
Sector-focused strategies

While some real estate funds' strategies focus exclusively on real estate, and natural resources funds' strategies focus exclusively on energy, PE&VC firms generally actively pursue all key sectors. In terms of focus area, sectors can be classified into three broad segments

1. High focus: more than 45% of the respondents are focused on the TMT and healthcare sectors
2. Medium focus: 16-45% of the respondents are focused on sectors such as food and beverages, real estate and infrastructure, energy and financial services
3. Low focus: 15% or fewer respondents are focused on sectors such as retail and manufacturing

PE&VC firms representing all strategies and sizes more or less have the same sector focus. The only notable exception is private debt firms that are focused equally on real estate and infrastructure, energy and financial services, and healthcare and TMT.





Tech focus

Going by the trends in the investment world, firms in all regions, of all sizes and representing all strategies seem to be interested in fintech, healthtech, artificial intelligence/machine learning and the internet of things. Notably, while other strategies have varying interest in other technologies, VC firms and funds of funds have shown a strong interest in all tech areas except traveltech and a few niche technologies. Supply chain technology sees modest interest from PE&VC firms, except natural resources funds. Notably, traveltech does not see much interest from the investing community.

Emerging tech areas of interest include automation, cleantech, marketplace, space and watertech. Some firms are also focused on the potential of specific technologies (such as SaaS) rather than application areas.

Regions likely to see more focus

North America (43% of respondents), Europe (37%) and Asia Pacific (33%) are key target regions for investment. Africa sees interest from 12% of the respondents and is the region with the fifth-largest focus on tech (after the UK, with interest from 17% of the respondents), primarily from firms focused on natural resources and infrastructure based in Africa, and South and North America.

PE&VC focus on technology by region

	North America	South America	UK	Europe (excluding the UK)	Asia Pacific	The Middle East	Africa
Technology, media and telecom (TMT)	57%	60%	57%	58%	61%	50%	46%
Healthcare and pharmaceuticals	60%	40%	48%	50%	56%	63%	31%
Food and beverages	11%	20%	29%	28%	25%	88%	54%
Real estate and infrastructure	21%	40%	19%	20%	19%	25%	15%
Energy	21%	60%	24%	28%	25%	38%	23%
Financial services	21%	40%	14%	13%	39%	25%	31%
Retail and consumer	9%	40%	19%	15%	22%	38%	15%
Manufacturing	19%	0%	10%	15%	6%	25%	15%

High Low

PE OPERATIONS

PE&VC professionals spend more than three-fourths of their time on due diligence, portfolio monitoring, deal sourcing and valuation

A large share of the sector is very open to outsourcing, as professionals across levels believe it is complementary to their operations

Portfolio monitoring is still performed mostly with in-house tools and spreadsheets despite a large number of specialised tools available in the market

Broadly, three PE&VC activities consume two-thirds of professionals' time – due diligence (24%) deal sourcing (21%) and portfolio monitoring (21%). If we add valuation (11%), the top four activities account for 77% of professionals' time.

There is considerable variation among firms by strategy, region and designation.

In terms of designation, associates spend considerably more time on deal evaluation, valuation and portfolio monitoring and very little on fund marketing. Leaders spend most of their time on deal sourcing and, as they are part of various boards as well, portfolio monitoring. They spend twice the time as associates on fund marketing.

However, activities vary across regions. For example, Middle East-based firms invest half the time their counterparts in Western markets spend on valuation. They also spend less time on deal sourcing and deal evaluation activities. On the other hand, they spend one-third more time on portfolio monitoring and c.2x the time on fund marketing. African firms closely resemble Middle East-based ones.

Time spent on research tasks

24%	Due diligence
21%	Portfolio monitoring
21%	Deal sourcing
11%	Valuation
8%	ESG and compliance
8%	Investor reporting
8%	Fund marketing

Strategies adopted also vary greatly. Due to their deal-sourcing methods, funds of funds and private debt firms spend less time on deal sourcing than VC firms (the time VC firms spend on this is the second highest among peers; ESG firms spend the most). On the other hand, VC funds invest less time on due diligence than on all other strategies.

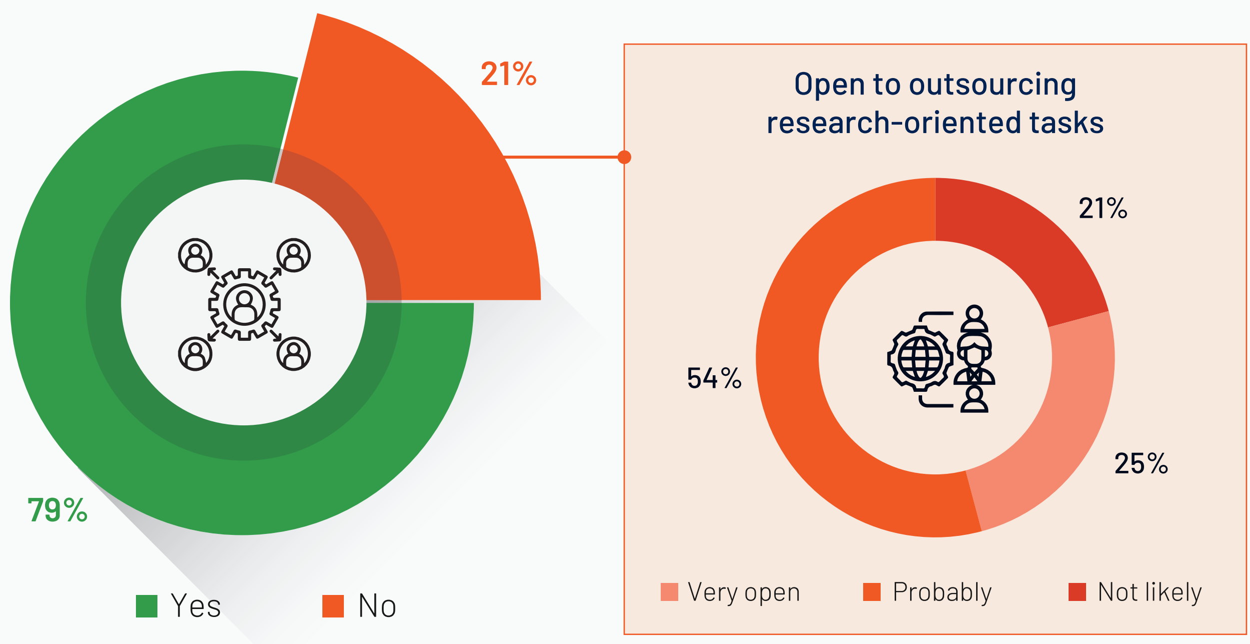
In terms of size of funds, the time spent on deal sourcing and portfolio monitoring increases as the size of fund decreases. Larger funds generally spend more time on deal evaluation.

Outsourcing

PE&VC firms are actively augmenting their teams with outside support (including but not limited to accounting, administration, human resources, operations and technology infrastructure); 79% of the respondents stated that they are currently outsourcing work Of the remaining 21%, 46% are likely to outsource or are open to outsourcing. This leaves just 12% of PE&VC firms not currently considering outsourcing. Interestingly, unlike other sectors where lower designations are concerned about their work being outsourced, 90% of associates and 89% of vice presidents in the PE&VC sector are open to outsourcing.

Their willingness to outsource is higher than that among leaders (c.75%). Unlike in other sectors where the decision to outsource is taken mostly by higher management, the PE&VC sector finds outsourcing complementary to their operations and not a threat. As a result, acceptance of outsourcing is very high across designations, driven by the support and value associated with outsourcing.

Prevalence of outsourcing to support/expand deal teams



Notably, PE&VC firms across regions, sizes and strategies (70-100%) are highly inclined to outsource work; VC funds are the least inclined, although a substantial 64% of respondents are favourable. Only 70% of firms with USD1bn in AuM currently outsource work, making this group the least open to outsourcing. Still, only 13% of respondents from these firms are currently not open to it, broadly in line with the general trend.

Portfolio monitoring

Most PE&VC firms rely on in-house methods for portfolio monitoring, which could be one reason why portfolio monitoring ranks among the top three activities. While Excel-based tools dominate, with a substantial 55% of respondents across the spectrum of PE&VC firms favouring them, customised in-house tools ranked the next best, with 31% of respondents.

Of third-party tools, iLevel and eFront accounted for 25% of the market. The rest of the market is fragmented – the main tools used include 4 degrees, Affinity, Backstop, Black Mountain, Capital Venture, DealCloud, FolioSure, Fundrbird, Juniper Square, PEAdmin, Pipedrive, Rundit.com, Salesforce, Shoobx and The Investor Net.

iLevel seems to be favoured by large funds; there is no clear winner among mid-size firms. Firms with less than USD1bn in AuM rely on in-house tools and are only slightly more inclined to use eFront. In terms of portfolio monitoring tools, all markets – Western and emerging regions – make similar use of and prefer the same portfolio monitoring tools.

There seems to be some regional and segmental bias as well in terms of specific tools. Black Mountain is used primarily by large private debt firms in North America and the UK.

Geographical reach of portfolio management tools[7]

	North America	South America	UK	Europe (excluding the UK)	Asia Pacific	The Middle East	Africa	RoW
Customised in-house	✓	✓	✓	✓	✓	✓	✓	
Excel-based	✓	✓	✓	✓	✓	✓	✓	
4 degrees		✓						
Affinity				✓				
Backstop	✓							
Black Mountain	✓		✓					
Capital Venture				✓				
Deal Cloud	✓							
eFront			✓	✓	✓	✓		✓
Fundrbird				✓				
iLevel	✓		✓	✓	✓		✓	
Juniper Square	✓							
PEAdmin				✓				
Pipedrive				✓				
Rundit.com				✓				
Salesforce	✓							
Shoobx	✓							
Survey Monkey					✓			
The Investor Net					✓			

[7] *Note: As disclosed by respondents; may not represent actual distribution*
Excludes FolioSure, our proprietary tool, to avoid conflict of interest

VALUATIONS & EXITS

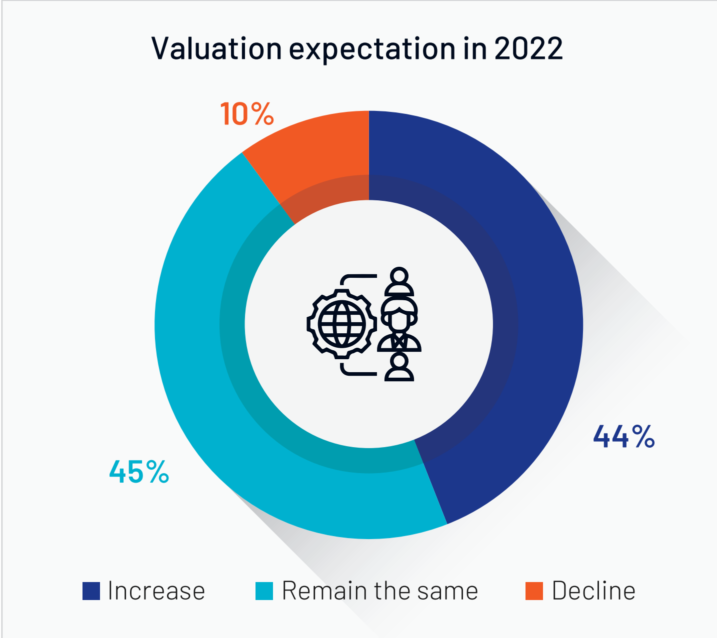
- Valuations are expected to remain elevated; some PE&VC leaders believe valuations are due for a correction
- Still, most of the professionals expect elevated valuations to support their current exit plans
- Increasing M&A and SPAC activity is boosting confidence, with strategic sales, sales to other funds and IPOs the leading exit options

Valuation expectations

In general, the PE&VC sector expects valuation levels to remain elevated; 90% of the respondents expect them to increase or remain the same.

Those less upbeat are veterans or leaders. Twenty percent of veterans (with 20+ years of experience) and 20% of managing directors expect valuations to decline.

All others are confident that valuations will either increase or remain at the current levels. With the market reaching unprecedented highs, projections remain very optimistic.

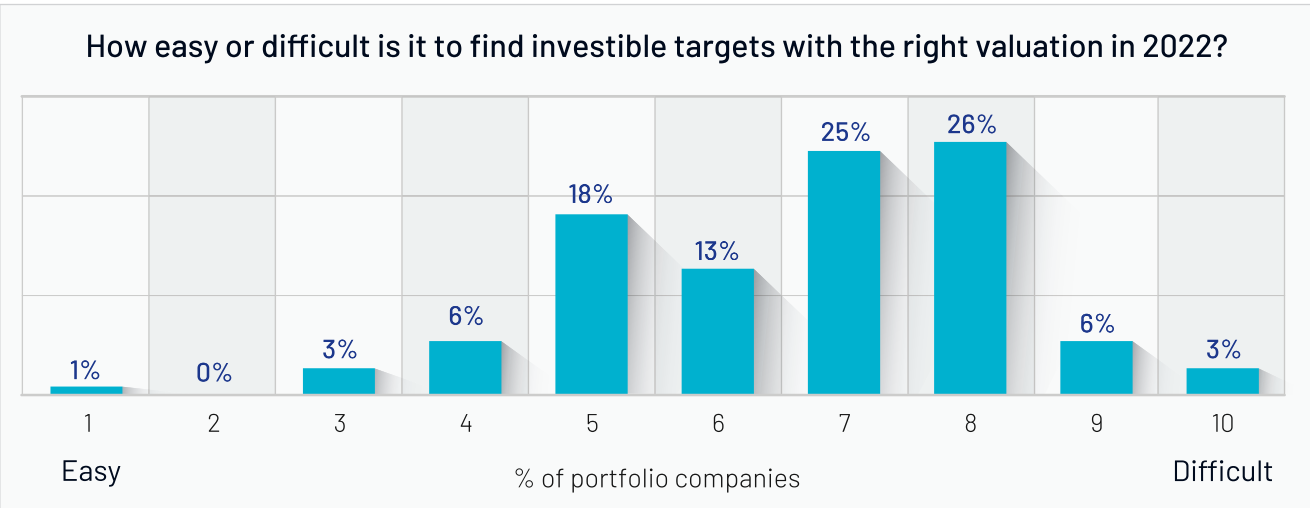


By region, respondents expecting valuations to increase are the highest in the US (56%). Half of the respondents from Europe and the UK expect valuations to remain within the current range. Interestingly, 21% of respondents from the UK expect a decline – the largest share of respondents expecting a decline. In terms of expecting a decline, the UK is followed by Africa (17%) and Asia (14%).

Of strategies, real estate professionals (as they witnessed declining transactions and rising vacancy rates) expect valuations to increase (50% of respondents) or remain the same (the other 50%). Firms representing the other strategies hold similar views, although the percentages of respondents vary. ESG funds are the most pessimistic about valuations: 40% of the respondents expect a decline. VC funds come second, with 18% of the respondents expecting a decline.

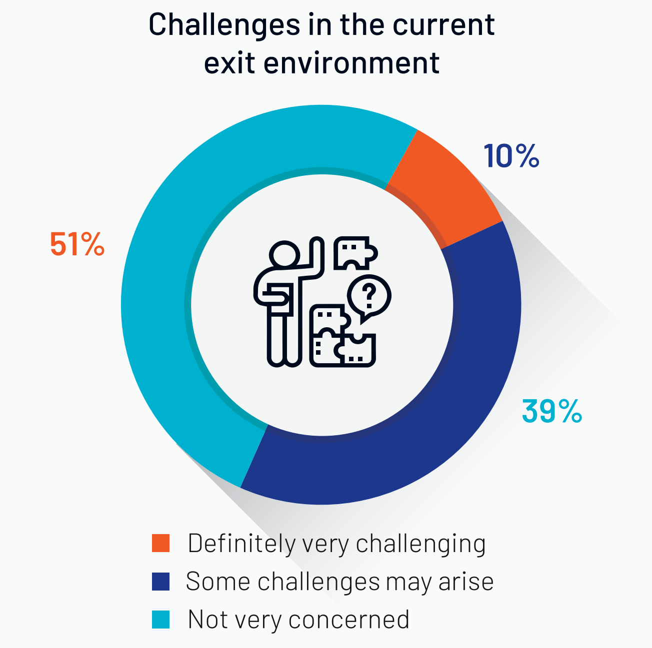
Finding targets with the right valuation

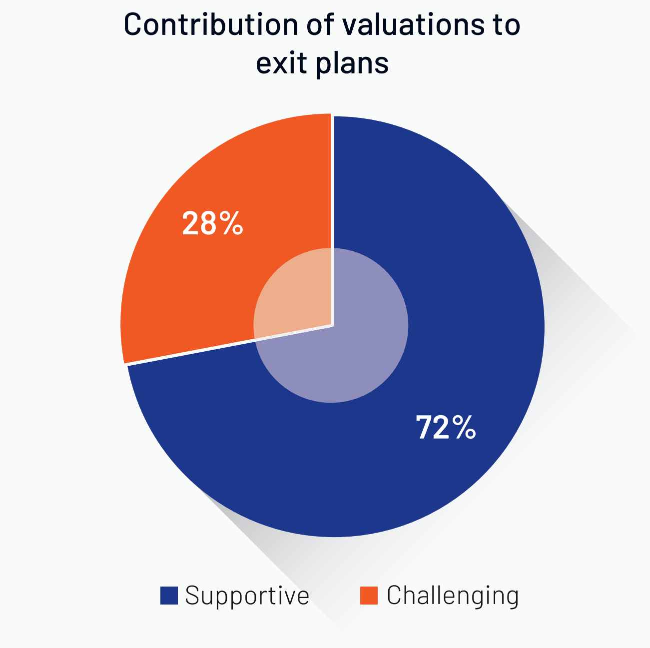
In an environment of soaring valuations, finding targets with the right valuation is difficult; almost all respondents agree with this. The level of difficultly seems moderate to difficult, with 81% of the respondents rating it between 5 and 8 or more on a scale of 1 to 10.



Exit plans

Despite high valuations and expectations they could increase further, the respondents believe their exit plans for 2022 should hold (51%) or might face some challenges (39%); hence, 90% of them are confident their exit plans will more or less remain on track.



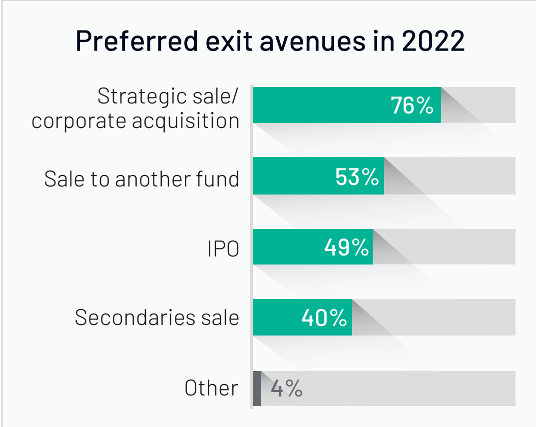


Real estate firms are the most confident (75%), as investment activities are recovering from the significant impact of the pandemic on the sector. Buyout funds and funds of funds (61% and 60% of the respondents, respectively) are also confident and have no reason to be concerned. VC funds expect a low to moderate level of challenge; half of the respondents have no reason to be overly concerned, but the other half expect some challenges. Notably, 9% of the respondents from VC firms and 10% of the respondents from buyout funds expect significant challenges at exit due to high valuations, but are likely focusing on sectors more sensitive to valuation levels.

Curiously, smaller funds expressed less concern. Thirty-eight percent of the respondents from funds with over USD150bn in AuM were not very concerned; this rises to 55% of respondents from funds with USD50-150bn in AuM and 67% of respondents from funds with USD10-50bn, compared with 50% of respondents from smaller funds (with less than USD1bn in AuM).

With such optimism, it is not surprising that only less than one-third of the respondents expect challenges to exit amid the current levels of valuation, while 72% believe the environment is supportive.

Preferred exit type



Note: Share of respondents will not total 100%, as respondents cited multiple challenges

This optimism becomes apparent against the backdrop of preferred exit avenues. Over three-fourths of the respondents favour a strategic sale/corporate acquisition as the exit avenue for 2022. This route seems to be a natural extension considering the spate of M&A activity, which has been consistently above the 2007 peak since 2016, even amid the pandemic in 2020[8]. In addition, with the rise of SPACs[9], IPOs have likely emerged as the preference of about half of the respondents.

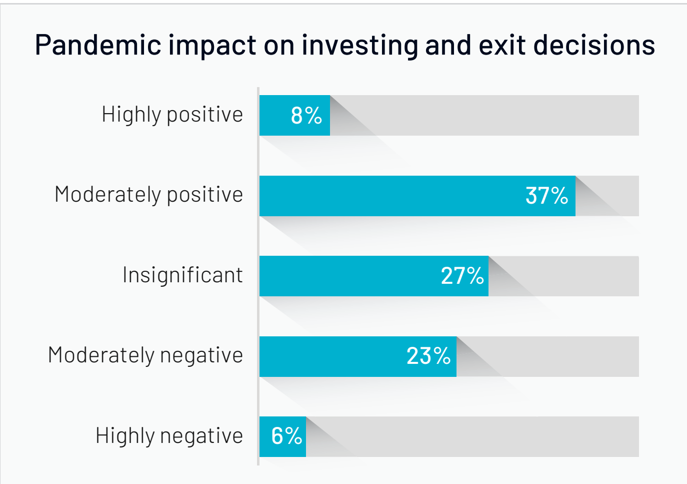
While strategic sales are a universal option, only funds of funds prefer a sale to another fund. A sale to another fund is the second most preferred option (53% of respondents), closely followed by an IPO (49% of respondents). These preferences are almost universal, with most funds and professionals across geographies sharing the same preferences.

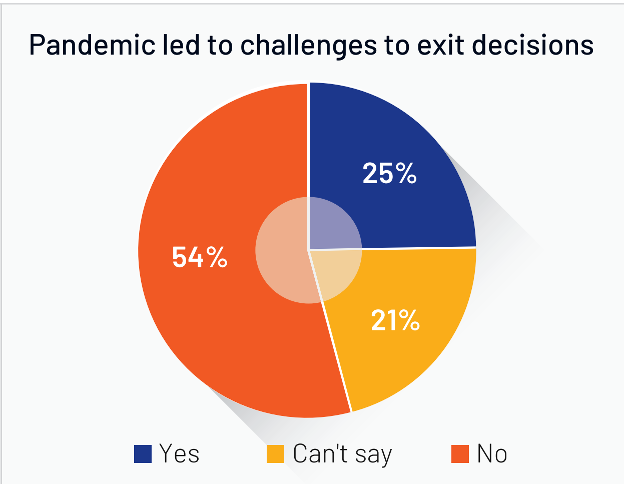
The secondaries route was preferred by 40% of the respondents, with respondents from the Middle East and Asia favouring it the most (67% and 52%, respectively). In terms of strategy, respondents from funds of funds and private debt firms favour it the most (70% and 64%, respectively).

A few of the respondents have also considered employee stock option plans (ESOPs) and sale-back to promoters/founders. Debt funds also have maturity options as an automatic route.

Impact of pandemic on exit decisions

The pandemic seems to have had a very limited impact on exit decisions. As many as 72% of the respondents found the pandemic to have had a highly positive (8%), moderately positive (37%) or insignificant (27%) impact. In terms of geography, the only groups of funds that seem to have been impacted were Africa- and Asia-focused funds (39% and 75%), and in terms of strategy, ESG funds (60%) and buyout funds (57%). It seems a natural extension that 75% of the respondents found the pandemic not to have had an impact on their exit decisions or were unsure of an impact.





[8] *Number of M&A deals globally 1985-2021 | Statista*
[9] *https://www.acuitykp.com/blog/can-spacs-attract-private-equity/*

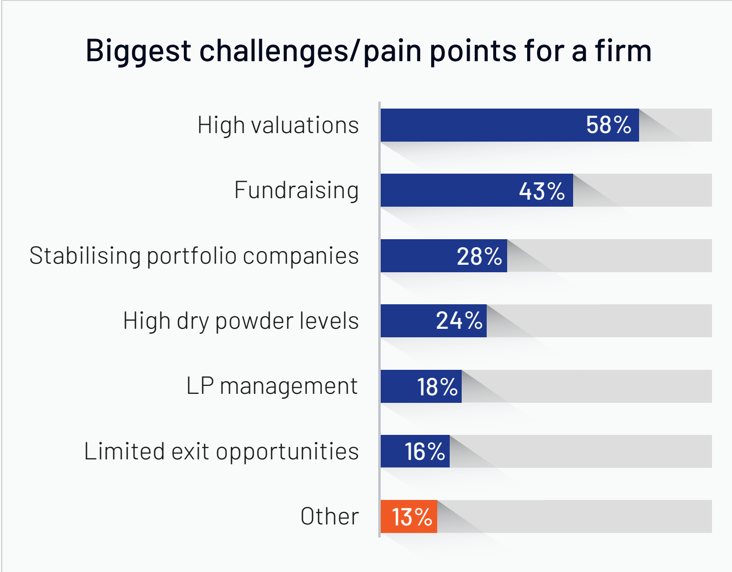
INVESTING ENVIRONMENT

- High valuations and fundraising seem to be key concerns in 2022
- Africa-based and Africa-focused firms put a higher emphasis than global peers on stabilising portfolio companies
- On regulatory front, the sector expects regulatory stringency to continue, with the possibility of increasing

Biggest challenges/ pain points

While respondents did not indicate that high valuations impacted exit decisions, they rate high valuations as a major concern (58% of respondents), followed by fundraising (43%).

The exceptions are veterans (with 20+ years of experience) and leaders among professionals, and funds of funds and private debt firms among strategies. These groups of respondents had fundraising as their top priority and consider valuations to be their second concern.



Share of respondents will not total to 100% as respondents cited multiple challenges

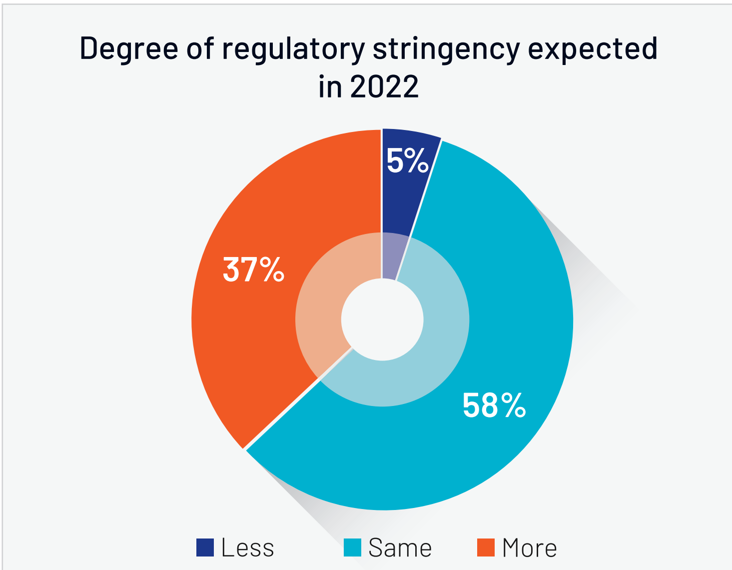
Africa-based firms rated stabilising portfolio companies as the most pressing concern – a substantial 83% of respondents from Africa-based firms and 58% of respondents from firms focused on Africa stated this as their key challenge. Overall, stabilising portfolio companies ranks third in priority (28% of respondents).

Other challenges that resonated with respondents include high levels of dry powder (24%), LP management (18%) and a limited number of exit avenues (16%). The fact that a strategic sale seems to be the most preferred avenue of exit for 77% of respondents highlights a lack of innovation and a limited number of exit avenues.

Recruitment, regulation and competition emerged as other key concerns. Competition is said to have three effects – it squeezes returns, impacts pricing and affects talent retention. The pandemic affected due diligence activity for both investing and exit

Regulatory oversight

Regulations have become a focus area in recent years as regulators increase scrutiny of PE&VC firms, and are likely to remain so. Fifty-eight percent of the respondents believe the regulatory environment will remain the same, while 39% expect regulators to become more stringent. Among them, 60% of directors and 52% of Asia-based firms expect regulations to become more stringent, surpassing the numbers that expect them to remain the same (40-43%).



Specific areas of regulatory concern for PE&VC executives include the following:

Vigilance and compliance:

The sector, in general, is facing tighter rules and regulations. A large number of respondents indicate the sector is becoming overregulated, increasing the complexity and burden. Amid instances of regulatory crackdown on big tech, private education and property companies, concerns are only increasing, resulting in more focus on compliance.

Regulatory clarity:

Sector participants are also concerned about regulatory direction and requirements. They believe regulations are unpredictable, lacking policy stability. Broadly speaking, the PE&VC sector is governed by regulations relating to financial services, despite financial services being a different sector. This has a larger impact in certain regions; for instance, firms in Saudi Arabia need to comply with financial regulations that are not very relevant in the current PE&VC environment. Similarly, Latin America-focused firms are concerned about regulations governing pension funds and insurance companies.

ESG:

The respondents believe environmental requirements may become stricter, leading to increasing compliance-related challenges. Firms are expected to monitor regulatory policy updates, in addition to regulations relating to fees and transparency.

Jurisdiction:

Firms with operations in more than one country are concerned about regulatory requirements across jurisdictions

Taxation:

Clarity on tax is another concern, and the sector hopes for an attractive and consistent tax climate. Broad areas of concern include the tax code, tax rate, carried interest, capital gains and stock option treatment.

Reporting obligations:

The varying degrees of reporting required for different audiences (e.g., the difference in reporting to LPs and to regulatory authorities) are another burden. A common reporting platform would ease this concern.

The sector is also concerned about regulatory responses amid events such as the pandemic and emerging areas such as the Sustainable Finance Disclosure Regulation (SFDR) and cryptocurrencies.

ESG

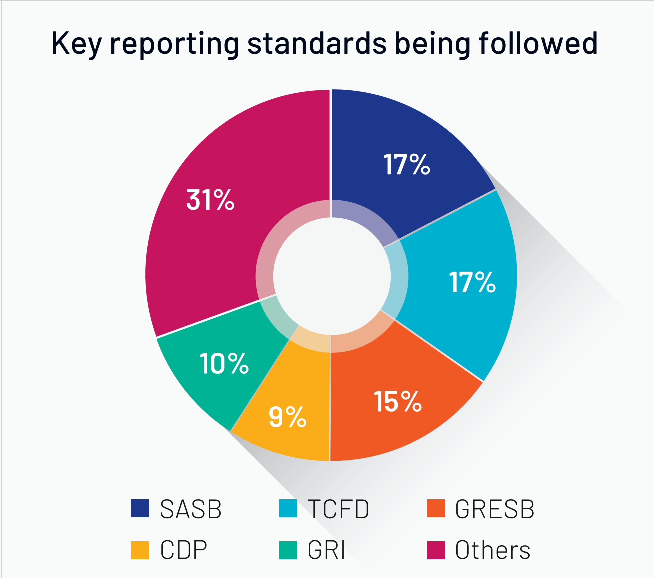
The UN PRI and the UN GC are the leading frameworks, with more than half of the PE&VC firms having signed on

Five reporting standards have been implemented; more than 75% of the firms identify with these

While many firms track ESG-related parameters, the sector as a whole believes these policies are still a work in progress

ESG has become an important theme of investing in recent years. As concern over climate change, corporate governance and social disparity increases, stakeholders across the value chain are joining the ESG bandwagon. Nearly 55% of the respondents are either signatories to or follow the UN PRI or UN GC frameworks.

There are also other reporting standards a firm can adhere to. About 70% of the respondents identify with these five key standards.



Signatory status as measured by share of respondents

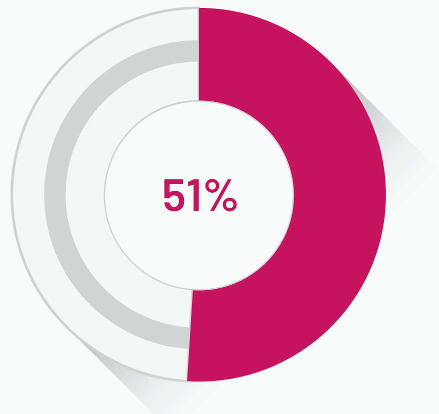
A few firms are not signatories to the frameworks; neither do they follow ESG standards. As they follow other approaches and there are many ESG-related standards around, it is difficult to determine whether respondents who have not opted to follow the mainstream standards do not follow any standard or follow them in another way.

Other standards being followed by the sector include IFC performance standards and frameworks such as the Impact Management Project, Global Impact Investing Network (GIIN) impact metrics, construction-related standards of Leadership in Energy and Environmental Design (LEED), Building Research Establishment's Environmental Assessment Method (BREEAM) and WELL Building Standard.

However, the ESG policies and processes of the respondents and their portfolio firms seem to be continuously evolving. Nearly half of the sector acknowledges that existing ESG policies and processes are partly developed. But the remaining half demonstrates there is progress, as 29% of the respondents stated that these policies and processes have matured.

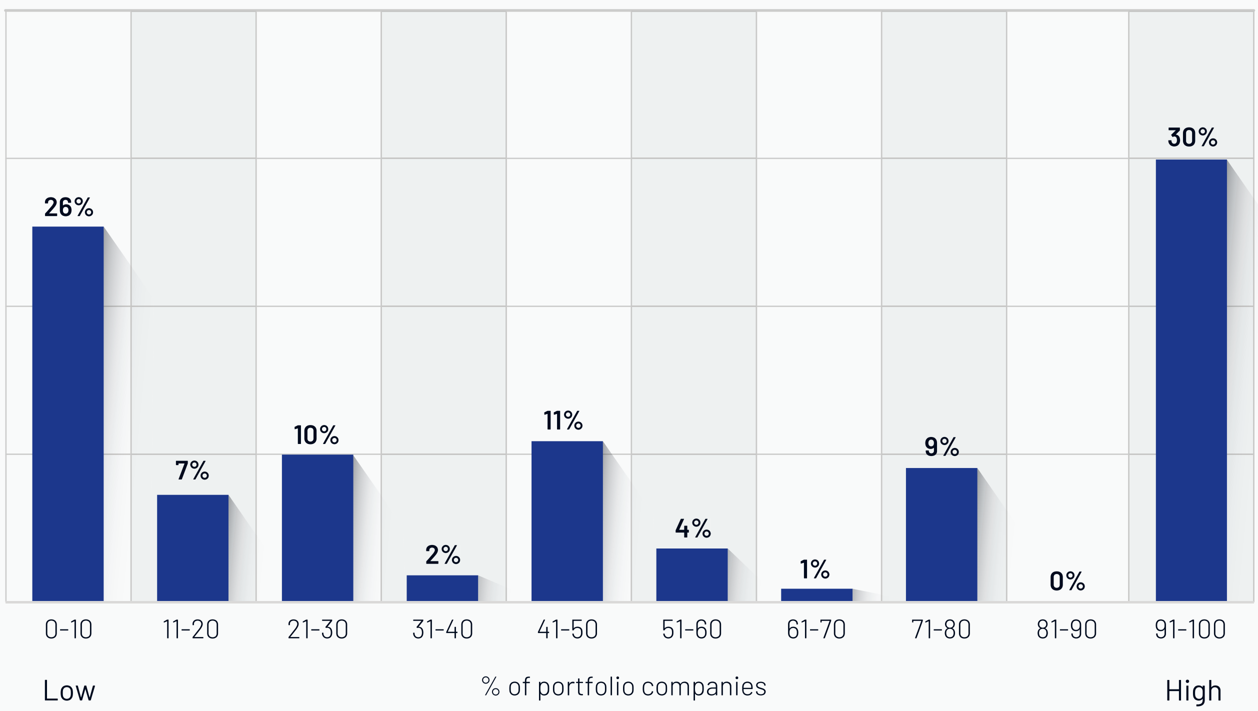
PE&VC firms have taken steps to strengthen ESG-related activities within their organisations. Two-thirds of the firms have a designated person to deal with ESG-related matters. In addition, 57% of the respondents have an ESG committee in their firms to monitor portfolio performance. Lastly, slightly more than half of the firms publish ESG, CSR or sustainability reports. These figures underscore the sector's commitment to upholding ESG considerations and the level of progress achieved. We, therefore, believe ESG considerations have become an increasingly important part of investment matters.

Percentage of portfolio companies that track key ESG-related performance



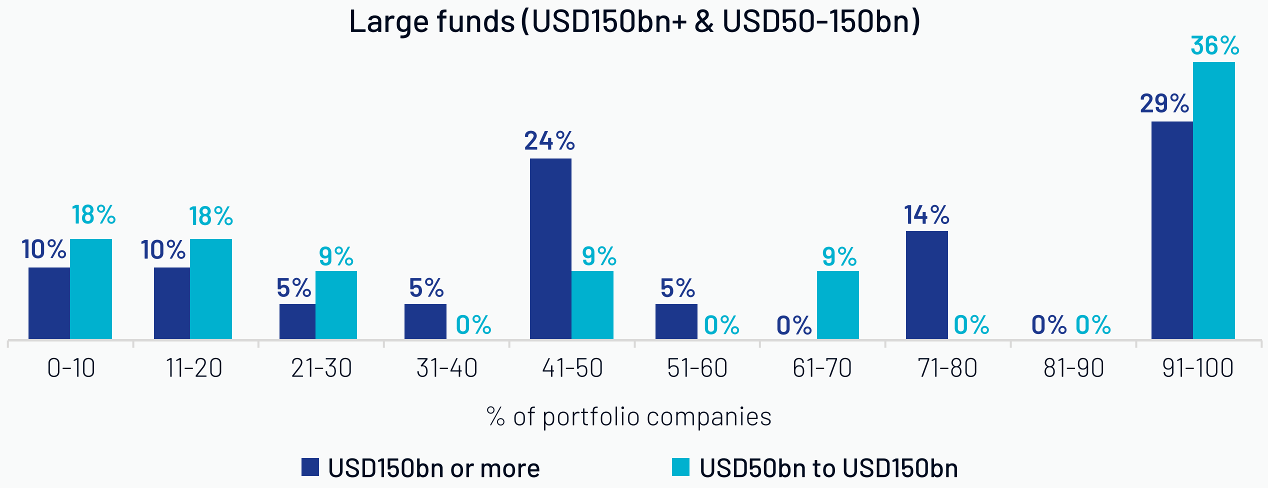
Half the sector tracks ESG-related parameters. The responses indicate that the initial setup of an ESG tracking mechanism is the major challenge. PE&VC firms with well-defined ESG tracking mechanisms do not find it difficult to scale up across portfolio companies. The survey also reveals the sector is broadly divided into early adopters that have established organisation-wide mechanisms and recent adopters that are responding to the ongoing push for ESG compliance.

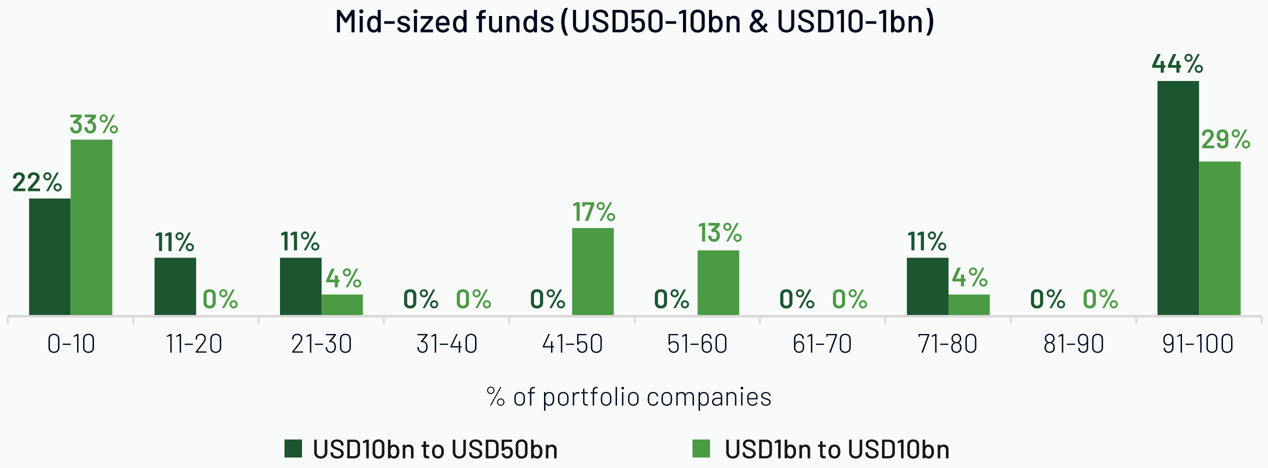
Distribution of portfolio companies tracking key ESG-related performance

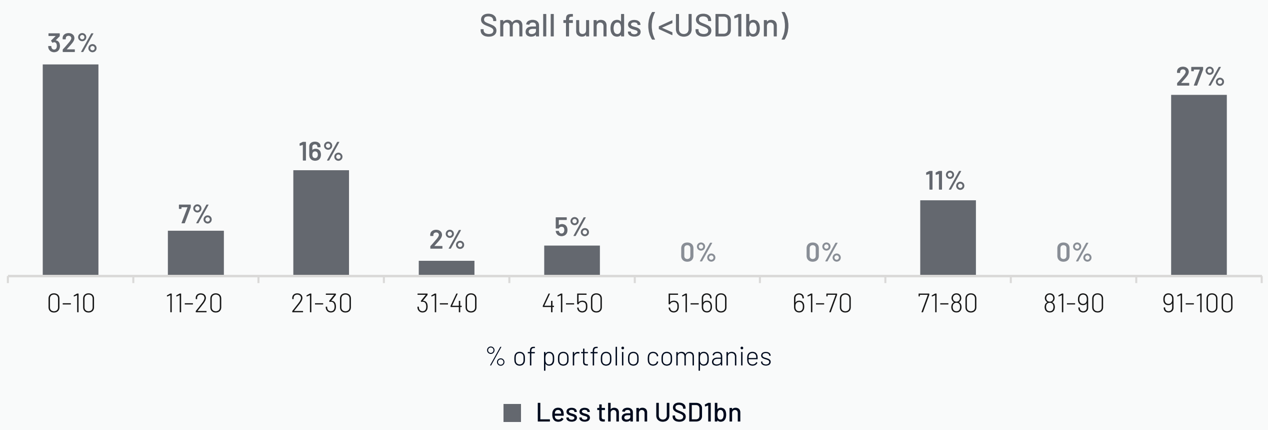


ESG adoption by size of funds

In terms of ESG adoption among firms, mid-size firms have the largest number of portfolio companies tracking ESG performance, while smaller ones also seem to have portfolio companies that do this.

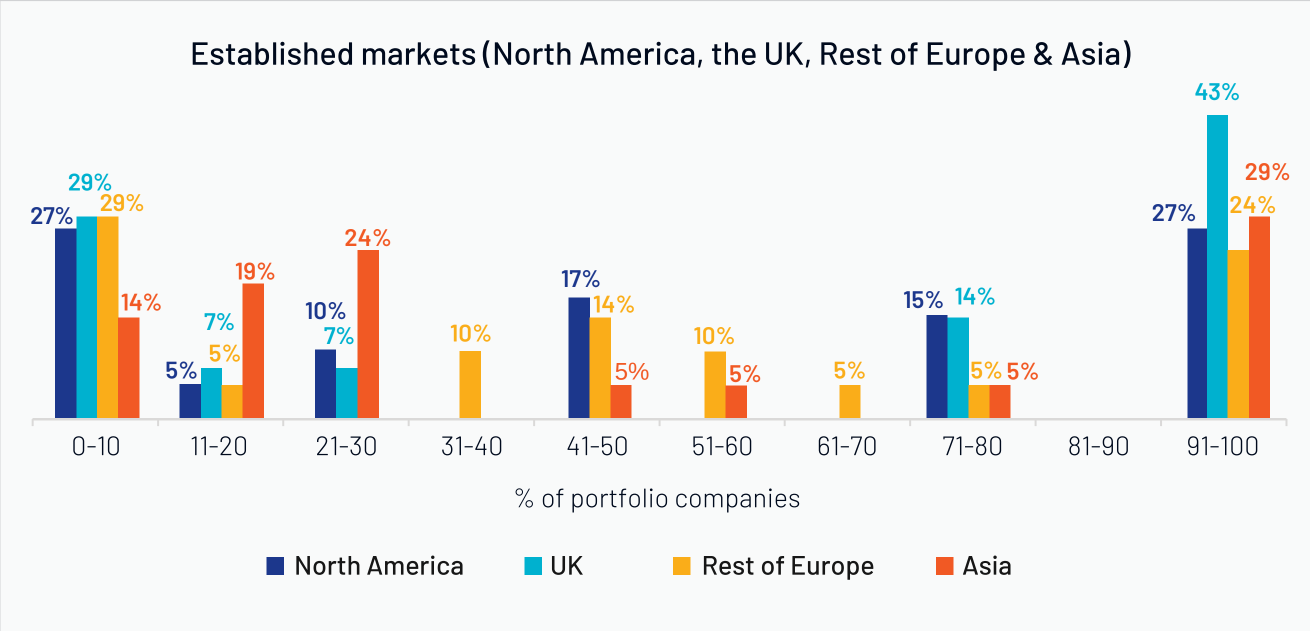


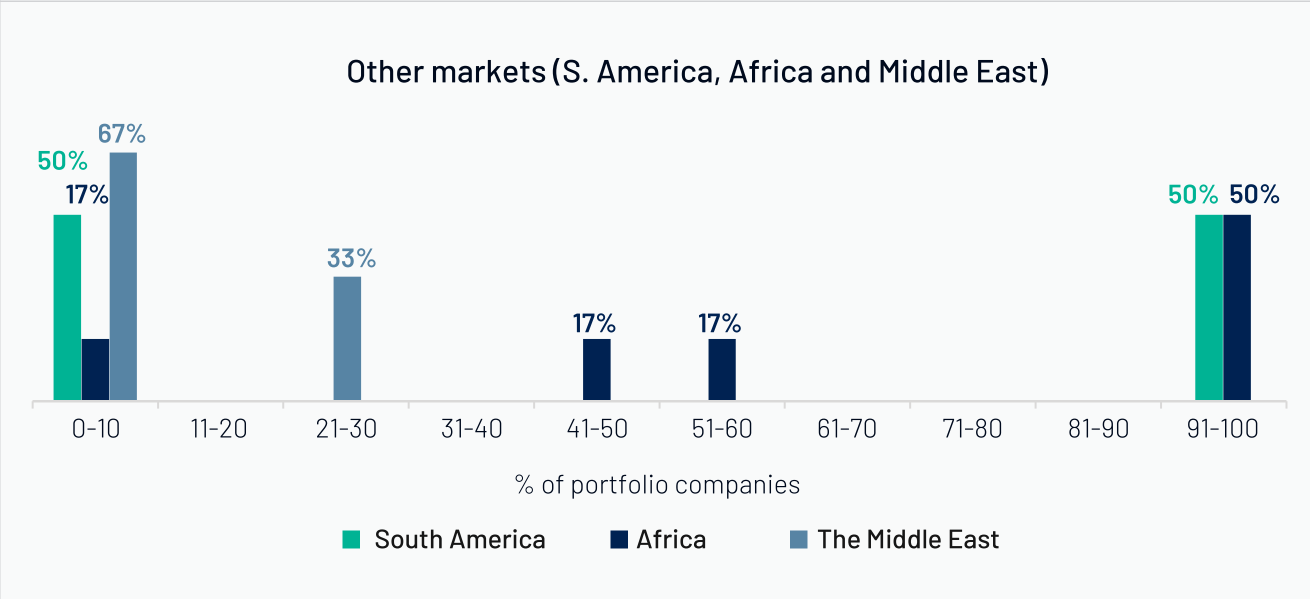




ESG adoption by region

ESG adoption seems not to be restricted to the Western and more established regions. Regions such as South America and Africa show even higher adoption. The only exception is the Middle East, although it seems to be catching up.





CONCLUDING THOUGHTS

Pratap Narayan Singh
Director
Private Equity and Venture Capital
Acuity Knowledge Partners

We are delighted to present the findings from our first survey of the PE&VC sector. We made an effort to reach all parts of the sector – regions and strategies, enabling us to present a ground-level understanding first-hand.

Sentiment towards fundraising is upbeat, resulting in significant amounts of dry powder that are likely to increase further. The number of investors willing to invest in PE&VC assets is rising, as is the number of PE&VC firms, increasing competition for cash and targets, although not yet hurting the sector.

Investing opportunities are aplenty, with healthtech and fintech the most promising. However, a few managers have noted a difficulty in identifying suitable opportunities, citing high valuations as a main reason for this. The pandemic has had a very limited impact on decisions, including exit decisions. Activity during this period seems to be enabling the traditional exit routes of strategic sales and IPOs, with SPACs supporting IPOs.

PE&VC professionals spend 77% of their time on four (of seven) key activities and are, therefore, willing to consider outsourcing most tasks.

The sector expects regulatory stringency to continue and is adopting ESG considerations of its own accord. The ESG space is seeing a sharp increase in interest. On one end are those firms that adopted ESG considerations early and now have most of their portfolio companies following ESG guidelines or reporting standards. On the other end are firms that have only recently started to focus on ESG factors and have a part of their portfolio companies following ESG guidelines. Nevertheless, a significant number of firms are following ESG standards including UN PRI/UN GC and a number of sector-specific standards.

We await rapid developments on this front in this sector.

Lead Author

Ambarish Srivastava

Assistant Director, Private Equity & Consulting

Ambarish Srivastava is an Assistant Director within Private Equity practice at Acuity Knowledge Partners, and has about 16 years of experience in business research, analysis and consulting. He focuses on leading deep-dive strategic projects, due-diligence support, issue-focused trend analysis and similar assignments for our PE clients. His previous experience includes tenure with startups, Big Four and consulting organizations, where he focused on industry studies, price forecasting, company analysis, macro-economic studies, and other strategic engagements.

Lead Researcher

Abhishek Bhatia

Assistant Director

Abhishek is an Assistant Director with Acuity Knowledge Partners (Acuity) and has over 17 years of experience in market research, consulting and data analytics. He is an expert in market research and project management. Abhishek leads multiple large client engagements and is instrumental in setting up Acuity's market research business.

About Acuity Knowledge Partners

Acuity Knowledge Partners (Acuity), formerly part of Moody's Corporation, is a leading provider of bespoke research, analytics, staffing and technology solutions to the financial services sector.

Headquartered in London, Acuity Knowledge Partners has nearly two decades of experience in servicing over 400 clients by deploying its 4,000 specialist workforce of analysts and delivery experts across its global delivery network. We provide our clients with unique assistance to innovate, implement transformation programmes, increase operational efficiency, and manage costs and improve their top lines.

Our expertise includes the following:

» Investment Banking: origination and trading support

» Investment Research support: covering all asset classes in terms of ideation, data science, and research support across the buy side and sell side

» Commercial Lending support: across origination, credit assessment, underwriting, and covenant and portfolio risk for all lending types

» Private Equity: origination, valuation and portfolio monitoring support

» Asset Management services support: across marketing, investment research, portfolio management/ optimisation, risk and compliance

» Corporate and Consulting services: market and strategic research; survey work; treasury and counterparty risk support; and CEO office support, including M&A, FP&A and investor relations support

» Compliance support: AML analytics, KYC, counterparty credit risk modelling and servicing across banks, asset managers and corporates

» Data Science: delivering AI/ML-driven unique insights from acquisition, preparation and analysis of traditional and alternative datasets

These services are supported by our proprietary suite of Business Excellence and Automation Tools (BEAT) that offer domain-specific contextual technology.

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acuitykp.com | contact@acuitykp.com